

Message Text

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ACTION AF-07

INFO OCT-01 EUR-12 NEA-06 ISO-00 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01

INR-05 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01

SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 FEA-01

/093 W

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R 221436Z NOV 74

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 6930

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

OECD PARIS 4495

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: ENRG, NI

SUBJ: PETROLEUM: GULF OIL CUTS PRODUCTION

1. GULF OIL COMPANY INFORMED NIGERIAN GOVERNMENT NOVEMBER 19 IT WAS CUTTING PRODUCTION TO APPROXIMATELY 300,000 BARRELS PER DAY. ACCORDING GULF OFFICIAL, GOVERNMENT TOOK DECISION VERY WELL AND "SEEMED AT LAST TO SHOW UNDERSTANDING OF THE ECONOMICS OF THE SITUATION."

2. GULF HOPES MOVE WILL BE TEMPORARY BUT CLAIMS THAT RECENT TAX AND ROYALTY INCREASES (LAGOS A-222) AND HIGH BUY-BACK COSTS HAVE REDUCED COMPANY'S PROFIT ON NIGERIAN OIL TO VANISHING POINT. GULF FINANCIAL MANAGER TELLS EMBASSY THAT COMPANY IS IN FACT LOSING MONEY ON EACH BARREL PRODUCED.

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3. COMMENT: FOREGOING INFORMATION IS ALL THAT HAS SO FAR COME

TO ATTENTION OF EMBASSY. WE DO NOT KNOW WHETHER SIMILAR ECONOMICS HAVE FORCED OTHER PRODUCING COMPANIES TO TAKE SIMILAR POSITION OR WHAT OFFICIAL FMG REACTION MAY BE. WE CAN PROBABLY EXPECT, HOWEVER, THAT PRODUCTION CUT-BACK INITIATED BY COMPANY FOR COMMERCIAL REASONS WILL BE WIDELY MISINTERPRETED IF AND WHEN IT BECOMES PUBLIC KNOWLEDGE.

4. FYI: GULF CAPACITY IS ABOUT 400,000 B/D AND AVERAGE MONTHLY PRODUCTION HAS TOPPED 385,000 B/D. ECONOMICS OF PRODUCTION VERY UNCERTAIN INSOFAR AS BUY-BACK PRICES CONCERNED. PRODUCING COMPANIES CONTINUE TO LIFT NEARLY ALL GOVERNMENT OIL, BUT THERE HAS BEEN NO PRICE AGREEMENT SINCE AUGUST 1 FOR THE OIL GOVERNMENT HAD INTENDED TO SELL TO THIRD PARTIES (13.75 PERCENT OF TOTAL PRODUCTION) AND NO AGREEMENT SINCE OCTOBER 1 FOR ANY OF THE GOVERNMENT OIL (55 PERCENT OF TOTAL PRODUCTION).
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